



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 7/02/2004

**GAIN Report Number:** RS4035

## Russian Federation

### Grain and Feed

### July Monthly Update

### 2004

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**Report Highlights:**

Hot weather in Siberia, expected harvest losses in European Russia, wheat winterkill, and price uncertainty will restrict total 2004 grain output. Additionally, oilseed production is relatively more profitable in the current year, and some farmers have switched to sunflowerseeds, pulling grain planted area down.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Moscow [RS1]  
[RS]

**Table of Contents**

<b>Executive Summary</b> .....	<b>3</b>
<b>Planted Area Estimates</b> .....	<b>3</b>
<b>Overall Production Forecast</b> .....	<b>3</b>
Production Situation in Siberia .....	3
Production Situation in Krasnodar.....	4
<b>Stocks</b> .....	<b>4</b>
Grain Quality .....	4
<b>Trade</b> .....	<b>4</b>
<b>Policy</b> .....	<b>4</b>
Government Interventions: Present and Future .....	4

## Executive Summary

As spring grains planting is completed and harvesting of winter grains progresses, there is still uncertainty regarding total planted area and a belief amongst agriculturalists that production may be lower than pre-season forecasts. Analysts are still using a wide estimate range to take into account uncertainty due to hot weather in Siberia, unclear data on wheat winter kill, and the extent to which farmers switched out of grains and into more profitable oilseeds. If production does in fact come in lower, some traders believe that the government may apply export restrictions to hold down domestic grain prices.

## Planted Area Estimates

Spring grain planting is completed, and farmers are starting to harvest winter grains in the southern sections of the Stavropol and Krasnodar regions. Although the Ministry of Agriculture (MinAg) estimates planted area at 45.0 million hectares, private experts believe that the true figure is lower because approximately 1.3 million hectares were lost to winter kill and the MinAg's planted area estimate is thought to double-count approximately 2.0 million hectares of re-planted cold-damaged area.

Larger agricultural operations report that they had planted 25.7 million hectares of spring grain crops as of June 1, 2004 (equal to the last year), including 11.7 million hectares of spring wheat (4.5 percent greater than on this date last year). In developing its total planted area figure, the official government source, AgroFact Agency, assumes that private farmers and small agricultural producers increased area planted to spring crops, and that total spring grain planted area could reach 33.0-33.5 million hectares. But actual data on spring grain planted area by small farms is not available, and these farmers may have switched to oilseeds or possibly reduced barley area due to relatively low prices for the later crop.

For these reasons, some analysts estimate that spring grain area will range from 31.5-32.6 million hectares. Given that winter grain area (winter grain planted area minus winter and spring kills) amounts to 11.5 million hectares, total grain planted area this year is estimated at 42.5-43.5 million hectares, 1.5 million hectares less than the MinAg's estimate. There is no data on planted area by grain, although wheat will be the main crop, with an expected decrease of area planted to barley, rye, rice, millet, and other secondary grain crops.

## Overall Production Forecast

The Ministry of Agriculture production forecast remains at 73-76 million metric tons (mmt), while private experts are using a range of 72 mmt to 78 mmt. These varying estimates reflect a difference between the perceived status of the winter and spring crops.

## Production Situation in Siberia

Actual and potential imports drove wheat prices downward in Siberia. In the spring, wheat imports from Kazakhstan totaled over 180,000 metric tons, and significant wheat flour stocks were accumulated at flourmills and wholesalers. Grain stocks in Kazakhstan as of May 1, 2004 were reported to be 5,937,000 metric tons, including 5,346,000 metric tons of wheat, and that grain was stored at elevators and mills (3,625,000 metric tons, including 3,448,000 metric tons of wheat) to be ready for further sales, including exports. Thus, farmers in Siberia were indecisive and had to make spring planting decisions based on wide-ranging (from 2,500 to over 4,000 rubles per metric ton) and uncertain price information. As a whole, these events discouraged wheat production. Continued hot weather in most Siberian regions will also work against a good grain crop this year by lowering yields, too.

## **Production Situation in Krasnodar**

The Head of the Grain Inspection of Krasnodar Kray reports that 1.5 million hectares were planted to grain in Krasnodar Kray, including approximately 1.0 million hectares of winter wheat. Although preliminary yield results for winter wheat are good at 4.5 tons per hectare and 5.0 tons per hectare of barley, heavy rainfall is expected to create greater harvest losses for these two crops, which could reduce final harvest volume. Similar grain production conditions exist for most of southern Russia.

## **Stocks**

Grain stocks in Russia on July 1, 2004 are estimated to be at least 5.0 mmt (versus 8.0 mmt on the same date last year). Estimates of ending MY 2004/05 stocks are not available, and forecasts vary significantly based on production and exports estimates. Domestic feed grain consumption is forecast only slightly higher than last year. Official estimates by the Agency for Agriculture (a new entity created as part of the Ministry of Agriculture reorganization) consider that livestock and poultry production may increase by five percent, boosting domestic feed grain consumption by 1.5 mmt.

## **Grain Quality**

Grain quality is expected lower this year due to heavy rain in some regions and crop disease. For example, harvest has already started in Krasnodar where they expect a bumper crop. However, excessive moisture has caused diseases to appear. Officials recommend that producers and elevators dry grain to avoid losses of the type that occurred in 1999 when the weather was very similar.

## **Trade**

Preliminary export data for MY 2003/04 (July–June) include 7.3 mmt of grain, of which 3.7 mmt is wheat, over 180,000 metric tons is wheat flour, and over 3.0 mmt is barley.

For MY 2004/05, grain traders do not forecast significant grain exports to EU for two reasons. First, the good crop forecasts in the EU countries will restrict the demand for imports from Russia. The second reason is the deterrent due to low EU quotas and high out-of-quota rates for grains. However, Russian grain exports to other markets (Asia and Africa), are forecast at minimum of four mmt and a maximum of eight mmt, and will consist mostly of feed wheat and feed barley.

Most grain will be exported from the traditional grain exporting regions of Russia (Russian European South and Volga Valley and Black Earth oblasts) mostly through river Don and Azov seaports, through Novorossiysk and Ukrainian ports. Traders are expected to start exporting as early as possible to take advantage of current low seasonal prices.

## **Policy**

### **Government Interventions: Present and Future**

Since February 18, 2004 (when trade began) to the beginning of July, the government has sold 1,539,411 metric tons of grain, including 474,520 tons of class 3 wheat, 783,786 tons of class 4 wheat and 281,105 tons of rye. The average weighted price of class 3 wheat was 4,630 Rubles per ton with a starting price of 4,400 Rubles, class 3 wheat was 3,742 rubles per ton at a starting price of 3,400 rubles, and rye was 2,765 rubles per ton at a starting

price of 2,500 rubles. The intervention fund still contain 18,860 tons of grain, including 5,310 tons of class 3 wheat, 3,100 tons of class 4 wheat and 10,450 tons of rye.

According to the Deputy Head of the Federal Agency for Agriculture, the government plans to allocate 4.2 billion rubles for the grain intervention fund in 2004-2005. In public declarations, Minister Gordeyev said that the ceiling prices for this market year's grain interventions will be 4,000 rubles for class 3 wheat (\$138), 3,200 rubles for class 4 wheat (\$110), and 2,200 rubles for food rye (\$76). The Ministry of Agriculture is planning to start interventions in August, but the timing will depend on when the Government issues the appropriate resolution. At present the verified draft of the Resolution is in the Ministry of Justice for approval.

There may be some changes in the procedures of grain purchase, such as a decrease in the delivery time to 30 days for grain to certified elevators from grain producing regions, and to 60 days for grain from non-grain regions, and the inclusion of costs for loading and unloading grain to and from the elevator in the cost of storing of grain in the intervention reserve. Some grain traders estimate that MY 2004/04 will be a buyers' market with grain prices slowly decreasing until November-December.